.

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6984

Investigation into Washington Electric Cooperative Inc.'s	)
Successor Service Quality and Reliability Performance,	)
Monitoring and Reporting Plan	)

Order entered: 9/20/2004

ORDER APPROVING SUCCESSOR SERVICE QUALITY AND RELIABILITY PERFORMANCE, MONITORING & REPORTING PLAN

I. INTRODUCTION

In this Order, we approve Washington Electric Cooperative, Inc.'s ("WEC") Successor Service Quality and Reliability Performance, Monitoring and Reporting Plan ("Successor Plan") as filed with the Board on July 1, 2004, and corrected by WEC and the Vermont Department of Public Service ("DPS") in their August 12, 2004, responses to questions from the Public Service Board's ("Board") staff. The Successor Plan sets out standards by which WEC's customer service, safety, and reliability performance will be measured. These standards cover seven broad areas: call answering; billing; meter reading; work completion; customer satisfaction; worker safety; and reliability. The Successor Plan also specifies how each standard will be measured, and the minimum performance baseline for each standard. In addition, the Successor Plan includes service guarantees,[1] and a mechanism for calculating a financial penalty if WEC does not meet certain performance standards.

II. PROCEDURAL HISTORY

On May 17, 2002, in Docket 6634, the Board approved a Service Quality and Reliability Performance Monitoring and Reporting Plan for WEC. That plan set out standards for measurement of WEC's customer service, safety, and reliability performance, and was to be in effect for two years from the date it was approved by the Board. On August 28, 2002, the Board approved an amendment to the plan that provided for two service guarantees.

1. Service guarantees require WEC to provide specified bill credits to individual customers if WEC fails to meet certain service commitments to those customers.

In accordance with the provisions of this original service quality plan, on July 1, 2004, WEC filed its proposed Successor Plan with the Board. In the cover letter accompanying the Successor Plan, WEC stated that the DPS supports approval of the Successor Plan as submitted.[2]

On July 28, 2004, Board staff sent questions to WEC and the DPS regarding the Successor Plan.

On August 12, 2004, WEC filed a joint response from WEC and the DPS to Board staff's questions ("Joint Response to Questions").

No party requested a hearing regarding the Successor Plan, and we have determined that one is not necessary. Our decision regarding the Successor Plan is based on the paper filings in this Docket.

III. Findings

1. Beginning the first day of the first quarter following the Board's order approving the Successor Plan, WEC will measure and report its customer service, safety, and reliability standards as detailed in the Successor Plan. Successor Plan at Section I.4.

2. The Successor Plan includes specific indices and baseline levels for performance standards in seven broad areas of customer service: call answering; billing; meter reading; work completion; customer satisfaction; worker safety; and reliability. Successor Plan at Section III, *generally*.

3. The Successor Plan includes service guarantees which require WEC to provide specified bill credits to individual customers if WEC fails to meet certain service commitments to those customers. Successor Plan at Section IV, *generally*.

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2. WEC's cover letter also articulated four concerns its Board of Directors has regarding the approach taken by the Board and the DPS with respect to service quality plans. We appreciate WEC's frankness in conveying its concerns to us.

With respect to WEC's concern regarding the inclusion of supplier transmission outages in the calculation of the two reliability indices, we note that Section II.9 of the Successor Plan states:

> WEC may seek a waiver of any applicable performance standard from the PSB. A waiver may only be granted where the circumstances causing the failure were beyond WEC's control, and the Cooperative can demonstrate that its level of preparedness and response was [sic] reasonable in light of the cause of the failure.

In accordance with this provision of the Successor Plan, the Board will consider any requests for waivers of specific performance standards at the time they are made.

4. The Successor Plan includes a service quality compensation mechanism. This mechanism requires WEC to pay a penalty if certain performance standards are not met. The Successor Plan specifies how to calculate "service quality compensation points," divides the service quality compensation points into two categories (reliability and other measures), and provides a sliding scale for determining the dollar value assigned to the service quality compensation points in each category.[3] Successor Plan at Section V and Attachment B, *generally*.

5. Performance standards III.1, III.3, III.5.a, III.7.a, and III.7.b will be used to calculate service quality compensation points. Successor Plan at Attachment A; Joint Response to Questions at 1.

6. According to the Successor Plan, the maximum service quality compensation dollars to be paid by WEC in one year is 0.1 percent of WEC's annual revenues for the 12-month reporting period (estimated to be $10,400 for 2004). Any service quality compensation dollars to be paid by WEC will be offset by any monies paid to customers through the service guarantees included in the Successor Plan. Successor Plan at Sections V.3 and V.7.

7. 0.1 percent of WEC's annual revenues for the 12-month reporting period is a reasonable cap on the maximum service quality compensation dollars to be paid by WEC in one year. This cap takes into consideration the fact that the DPS had no particular concerns about WEC's service quality or management capability at the time the Successor Plan was negotiated, as well as the fact that WEC is not an investor-owned utility. Joint Response to Questions at 1–2.

8. Service quality compensation dollars will be calculated annually in the month following the anniversary of the effective date of the Successor Plan. Successor Plan at Section V.6.

9. Service quality compensation dollars will be paid to the WARMTH program. Successor Plan at Section V.6.

10. The WARMTH program is a long-standing emergency energy assistance program administered by Vermont's community action agencies. It provides assistance to low-income people during the heating season facing a no-fuel or utility shutoff situation. It is privately

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3. The Successor Plan refers to the dollar value assigned to the service quality compensation points as "service quality compensation dollars." In this Order, the term "service quality compensation dollars" has the same meaning.

funded, primarily by voluntary contributions solicited from customers of several electric and gas utilities and two fuel dealers. In 2003, approximately 1,500 WEC members contributed $11,801 to WARMTH through WEC's bill "Roundup" program and direct donations. Joint Response to Questions at 2.

11. It is reasonable for any service quality compensation dollars to be paid to the WARMTH program because:

> (a) the WARMTH program is an established program providing an important energy-related public benefit in WEC's service territory;
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> (b) the effort and cost of allocating and distributing service quality compensation dollars appropriately to affected ratepayers would likely be significant compared to the amount actually distributed, and would create additional cost for WEC; and
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> (c) it is most efficient to avoid the administrative costs of service quality compensation bill credits that, if incurred, would likely be *de minimus*, and ensure that any penalties paid do the maximum possible good.

Joint Response to Questions at 2.

12. At the time WEC files its quarterly report in the month following the anniversary date of the Successor Plan, WEC will file its calculation of the service quality compensation dollars, and its propsal for communicating to its customers about its service performance over the prior year. Under the terms of the Successor Plan, the DPS must file any objection it has to any of these items within 30 days after WEC files its proposals. If the DPS files no objection within 30 days, and the Board takes no action within 60 days of WEC's filing, the filing will be deemed accepted and approved. Successor Plan at Sections V.6 and V.8.

13. The Successor Plan will remain in effect from the beginning of the first quarter following Board approval until modified by subsequent Board order. Under the terms of the Successor Plan, WEC and the DPS will review the Successor Plan after it has been in effect for one year and every two years thereafter to determine if any modifications of measurements or performance levels are needed. WEC or the DPS may petition the Board for modifications of measurements or performance levels at any time during the life of the Successor Plan. Successor Plan at Section I.4.

IV. Discussion

As the Board stated in Dockets 6120/6460:

> Section 219 of Title 30 requires electric utilities (and other regulated companies) to "furnish reasonably adequate service, accommodation and facilities to the public." Vermont law gives this Board the authority to set standards regarding this utility obligation. Specifically, 30 V.S.A. § 209(a)(1) gives this Board jurisdiction over "[t]he . . . quality of any product furnished or sold by any company subject to supervision under this chapter," and 30 V.S.A. § 209(a)(3) provides jurisdiction over "[t]he manner of operating and conducting any business subject to supervision under this chapter, so as to be reasonable and expedient, and to promote the safety, convenience and accommodation of the public[.]" Taken together, these statutory provisions establish the basis for service quality and reliability standards by which the adequacy of service can be measured in order to determine whether a company is, in fact, providing "reasonably adequate service" and is operating its business in a "reasonable and expedient" manner that "promotes the safety, convenience, and accommodation of the public."[4]

We are persuaded by the evidence in this Docket that the service quality and reliability standards included in WEC's Successor Plan do just that — they enable the Board to measure WEC's performance in certain areas that are important to customers, and thus to ascertain whether WEC is providing "reasonably adequate service." In addition, the Successor Plan's service guarantee and service quality compensation mechanism provisions promote the "convenience and accommodation of the public." Thus we conclude that WEC's Successor Plan will help the Board monitor whether WEC's performance is consistent with its statutory obligations. This is a clear benefit to customers.

The Board has previously found that service quality plans provide a variety of other benefits to customers, including, among others: supplying public information on the level of service a company is providing; supplying data which is comparable to that reported by other electric companies in Vermont; the establishment of a database from which to set future, more stringent targets; the provision for the waiver of fees for missed service appointments; and "expected financial penalties in the Successor Plan to be adopted after two years."[5] WEC's

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4. Dockets 6120/6460, Order of 6/26/01 at 44.

5. *See*, e.g., Dockets 6120/6460, Order of 6/26/01 at 45.

Successor Plan provides all these benefits to customers, including financial penalties through the service quality compensation mechanism.

For these reasons, we approve WEC's Successor Plan. However, there are two aspects of WEC's Successor Plan that deserve additional discussion: (1) performance standards and baseline levels; and (2) the service quality compensation mechanism. We address each of these in turn.

Performance Standards and Baseline Levels

We have previously recognized that one benefit of service quality plans is data comparable to that reported by other electric companies in Vermont. However, the performance standards and baselines in the first service quality plans for electric utilities in Vermont varied considerably. These variations allowed the DPS, the electric utilities, and the Board to learn from the different utilities' experiences. At the same time, the Board encouraged increased standardization in the second set of service quality plans. We are pleased that WEC's Successor Plan is consistent with this policy goal. Nearly all the performance standards are similar to those in other successor plans previously approved by the Board, and most of the baselines are identical to or stricter than (that is, more beneficial to customers) the baselines previously approved by the Board in other utilities' successor plans.[6]

The most significant difference in performance standards and baselines between WEC's Successor Plan and other previously-approved successor plans are for the two worker safety

6. The baseline for performance standard III.1 (call answering service level) is stricter than the baseline previously approved by the Board in other utilities' successor plans — 15% in WEC's Successor Plan compared to 25% in other utilities' successor plans. Similarly, the baseline in WEC's Successor Plan for performance standard III.3.a (percent of actual meter readings per month) is stricter than the baseline previously approved by the Board in other utilities' successor plans — 5% in WEC's Sucessor Plan compared to 10% in other utilities' successor plans. Finally, the baseline for performance standard III.7.b (customer average interruption duration) is stricter than the baseline previously approved by the Board in other utilities' successor plans — 2.0 in WEC's Successor Plan compared with between 2.2 and 2.6 in other utilities' successor plans.

The baseline for performance standard III.2.c (payment posting complaints) is less strict in WEC's Successor Plan — 0.05% in WEC's Successor Plan compared with 0.005% in the other previously-approved successor plans. Similarly, the baseline for performance standard III.7.a (system average interruption frequency) is less strict in WEC's Successor Plan — 3.8 in WEC's Successor Plan compared with between 1.7 and 2.7 in other utilities' successor plans. (However, the baseline for performance standard III.7.a is within the range approved by the Board for this performance standard in other utilities' *original* service quality plans.)

performance standards (performance standards III.6.a (lost-time incident rate) and III.6.b (lost-time severity rate)). These standards are measured using the number of incidents and the severity of those incidents rather than as rates normalized to a hypothetical company with 100 employees who work 40 hours a week for 50 weeks per year. The methodology included in WEC's Successor Plan is identical to that approved by the Board in WEC's original service quality plan. At the time the Board approved that plan, it found that the reasons for using the different methodology were:

> (a) the normalized rates were harder for WEC to explain to its employees and constituents; and (b) the need to include an allowance for random events in the rate for utilities with a small number of employees makes comparisons with larger utilities' rates confusing and less useful.[7]

These reasons still apply, and we conclude that it is appropriate for WEC to continue to use a different methodology to measure worker safety than Vermont's larger electric utilities use.

Service Quality Compensation Mechanism

The basic structure of WEC's service quality compensation mechanism is the same as that previously approved by the Board for other electric utilities. All the mechanisms provide for the calculation of service quality compensation points, divide the service quality compensation points into two categories (reliability and other measures), and include a sliding scale for determining the dollar value assigned to the service quality compensation points in each category.

However, there are two differences between WEC's service quality compensation mechanism and those previously approved by the Board for other electric utilities. First, the cap on the amount of service quality compensation dollars to be paid by WEC in one year is different for WEC than for the other utilities with service quality compensation mechanisms in effect. Under the Successor Plan, the maximum service quality compensation dollars that could be paid by WEC in one year is 0.1 percent of WEC's annual revenues for the 12-month reporting period (estimated to be $10,400 for 2004). For the only other non-profit entity with an approved service quality compensation mechanism (Vermont Electric Cooperative, Inc. ("VEC")), the maximum

7. Docket 6634, Order of 5/17/02 at 3 (finding 3).

service quality compensation dollars that could be paid is 0.5 percent of that utility's annual revenues for the 12-month reporting period.[8]

WEC and the DPS have argued that there are significant differences between WEC and VEC that justify setting a lower cap for WEC.[9] For example, VEC's successor plan was developed in the context of its acquisition of the former Citizens Communications Company's Vermont Electric Division ("Citizens"), making VEC the third largest utility in the state. The DPS had concerns going into the negotiations of VEC's plan about service quality in the former Citizens service territory and about VEC's management capability. The DPS had no such concerns about WEC's service quality or management capability at the time it began negotiating WEC's Successor Plan. In addition, the Memorandum of Understanding concerning VEC's acquisition of Citizens provided for a management incentive plan to be developed. This created an opportunity to link service quality compensation and management compensation, which made it possible to place a greater percentage of annual revenue at stake without risking penalizing all VEC's ratepayers by unduly transferring the cost of the service quality compensation mechanism to them. This opportunity may not have been present for WEC.[10] However, we emphasize that, if the lower cap was not presented as a component of an overall stipulation, Commissioner Burke's concurrence would instead have been the unanimous position of this Board, i.e., we would have expected a cap as high as that for VEC. The fact that the lower cap falls (barely) within the zone of reasonableness is due only to the fact that it is part of a stipulation that, overall, represents a reasonable resolution of the issues in this Docket. Furthermore, if so many service quality problems occur that the cap becomes meaningful, it is likely that we will revisit this issue (on a *prospective* basis).

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8. The other two utilities with service quality compensation mechanisms in effect are for-profit companies. The maximum service quality compensation dollars that these two utilities could pay is approximately 75 basis points of the companies' earnings. However, as a non-profit entity, WEC does not have "earnings" as those two utilities do. As a result, no direct comparison can be made between the method for determining the maximum service quality compensation dollars for these two utilities, and the method used to determine the cap for WEC.

9. Joint Response to Questions at 1–2.

10. Joint Response to Questions at 1.

While we recognize these differences between VEC and WEC, we are nevertheless disappointed that WEC's Successor Plan does not more closely resemble VEC's successor plan. When we approved VEC's successor plan we commended VEC for explicitly linking its service quality and reliability performance to management compensation. We also encouraged other Vermont utilities to consider linking service quality and reliability performance to management compensation in some manner as they develop their successor plans.[11] Not only does such linkage provide a concrete indication to utility managers that the company highly values its service quality and reliability performance, but, in the case of cooperative and municipal utilities, it allows the utility to place a greater percentage of annual revenue at stake without the risk of penalizing all of the utility's ratepayers by unduly transferring the cost of the service quality compensation mechanism to them.

We would have greatly preferred a service quality compensation mechanism for WEC that (1) linked management compensation with service quality and reliability performance, and (2) included a cap of 0.5 percent of WEC's annual revenues for the 12-month reporting period. However, in light of the fact that WEC's Successor Plan was the result of a settlement between two parties with opposing interests, and the fact that the Successor Plan does include a service quality compensation mechanism (albeit one that does not go as far as we would like), we have concluded that the service quality compensation mechanism included in the Successor Plan is acceptable at the present time. Nevertheless, we urge WEC to consider linking its service quality and reliability performance to management compensation in the future; we also urge the DPS to consider this potential mechanism when negotiating successor service quality plans with other utilities.

The second difference between WEC's Successor Plan and other utilities' successor plans relates to who will receive any service quality compensation dollars that are paid. Other utilities' successor plans provide that any service quality compensation dollars will be paid to active customers by a one-time credit, with the dollars returned to those active customers who were affected by the service deterioration as far as practicable without incurring substantial

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11. Dockets 6850 and 6853, Order of 6/28/04 at 6.

administrative costs. WEC's plan, on the other hand, provides that any service quality compensation dollars will be paid to the WARMTH program.

The parties have persuasively argued that it is appropriate for WEC to pay any service quality compensation dollars to the WARMTH program. As the parties have explained, the effort and cost of allocating and distributing service quality compensation dollars appropriately to affected ratepayers would likely be significant compared to the amount actually distributed.[12] In addition, we are persuaded that, in WEC's case, the fact that a violation sufficient to trigger a penalty occurred will attract the attention of WEC's management staff and its board of directors. The fact that a penalty was assessed is likely to be more significant for the purpose of triggering prompt and effective corrective action by utility management than to whom the penalty was paid.

However, possibly the most effective method of ensuring prompt corrective action by WEC is to keep its members fully informed of its service quality and reliability record.[13] The structure of a cooperative ensures that WEC's members have a voice in the management of the utility. However, for this voice to be effective, members must be informed about issues such as service quality and reliability at a time that would enable them to voice their opinions on these issues to WEC's management and board of directors. In light of this fact, we conclude that it is appropriate for WEC to inform its members of its service quality and reliability performance at the same time and in the same manner that WEC informs its members of other items to be discussed at WEC's Annual Meeting.

Section V.6 of the Successor Plan requires WEC to propose the manner in which it will communicate its service quality and reliability performance to its members. Section V.8 of the Successor Plan provides that if the DPS takes no action on WEC's proposal within 30 days after it was filed, and the Board takes no action on the proposal within 60 days after it was filed, the proposal will be deemed accepted and approved. Since under the Successor Plan, the Board will review and approve WEC's proposal for communicating with its members regarding its service

12. We note that had the cap on service quality compensation dollars been set at 0.5 percent of WEC's annual revenues, this might not have been the case, and we might have reached a different conclusion regarding the appropriateness of paying any service quality compensation dollars to the WARMTH program.

13. This is particularly important in light of the fact that any penalties paid by WEC will not be paid to WEC's ratepayers, but rather to the WARMTH program.

quality and reliability performance, we take this opportunity to provide WEC with some guidance regarding what we will be looking for in WEC's communication proposal. In addition to whatever other communication mechanisms WEC may choose to employ, we expect to see that WEC will be informing its members of its service quality and reliability performance, at the same time and in the same manner that it informs them of other items to be discussed at WEC's Annual Meeting.

Finally we note that in response to our questions, WEC and the DPS clarified that the performance standards that are to be included in the service quality compensation calculation are those listed in Attachment A, not those listed in Sections V.1 and V.4 (the difference is that performance standard III.5.b should not be included in the service quality compensation calculation). We find the performance standards listed in Attachment A to be appropriate to use in the service quality compensation calculation. We require WEC to file a new version of the Successor Plan that corrects this error within five business days of the date of this Order.

V. CONCLUSION

We approve WEC's Successor Plan as filed with the Board on July 1, 2004, as corrected by WEC's and the DPS's August 12, 2004, filing. We require WEC to file, within five business days of the date of this Order, a new version of the Successor Plan that corrects the error identified by WEC and the DPS in their August 12, 2004, responses to Board staff's questions. In addition, consistent with the terms of the Successor Plan, we require WEC to file such tariff amendments as are necessary to implement the Successor Plan's service guarantees within 30 days of the date of this Order.

VI. Order

It Is Hereby Ordered, Adjudged and Decreed by the Public Service Board of the State of Vermont that:

1. Washington Electric Cooperative, Inc.'s ("WEC") Successor Service Quality and Reliability Performance, Monitoring & Reporting Plan ("Successor Plan") that was filed on July 1, 2004, is approved with the correction discussed in Paragraph 2, below.

2. WEC shall correct the list of performance standards included in Sections V.1 and V.4 of the Successor Plan so that they are the same as the list of performance standards included in Attachment A.

3. Within five business days of the date of this Order, WEC shall file a corrected version of the Successor Plan that is consistent with the terms of this Order.

4. Within 30 days of the date of this Order, WEC shall file such tariff amendments as are necessary to implement the service guarantees included in the Successor Plan as approved.

Dated at Montpelier, Vermont, this 15th day of September, 2004.

s/Michael H. Dworkin	)	
	)	Public Service
	)	
s/David C. Coen	)	Board
	)	
	)	of Vermont
s/John D. Burke	)	

Office of the Clerk

Filed: September 20, 2004

Attest: s/Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.

CONCURRENCE

______I concur with my colleagues' opinion approving WEC's Successor Plan in this matter in all respects save one. I would have approved the plan only with the condition that the quality and reliability performance compensation be capped at .5 percent of WEC's annual revenues for the 12-month reporting period.

I understand that the business structure of municipal and cooperative utilities forces the compensation to be realized from their ratepayers and differentiates them from investor-owned utilities.

However, I would only differentiate among the municipal and cooperative utilities as to the cap for compensation if there were extraordinary circumstances presented. Here, the primary circumstance presented was the acquisition by Vermont Electric Cooperative, Inc. ("VEC") of Citizens' Vermont Electric Division. Presumably, VEC knew what it was buying and I fail to view this circumstance as extraordinary. Thus, I see no reason to differentiate the compensation cap in this docket from the .5 percent set for VEC.

Dated at Montpelier, Vermont, this __15th__ day of September, 2004.

s/John D. Burke
John D. Burke, Board Member